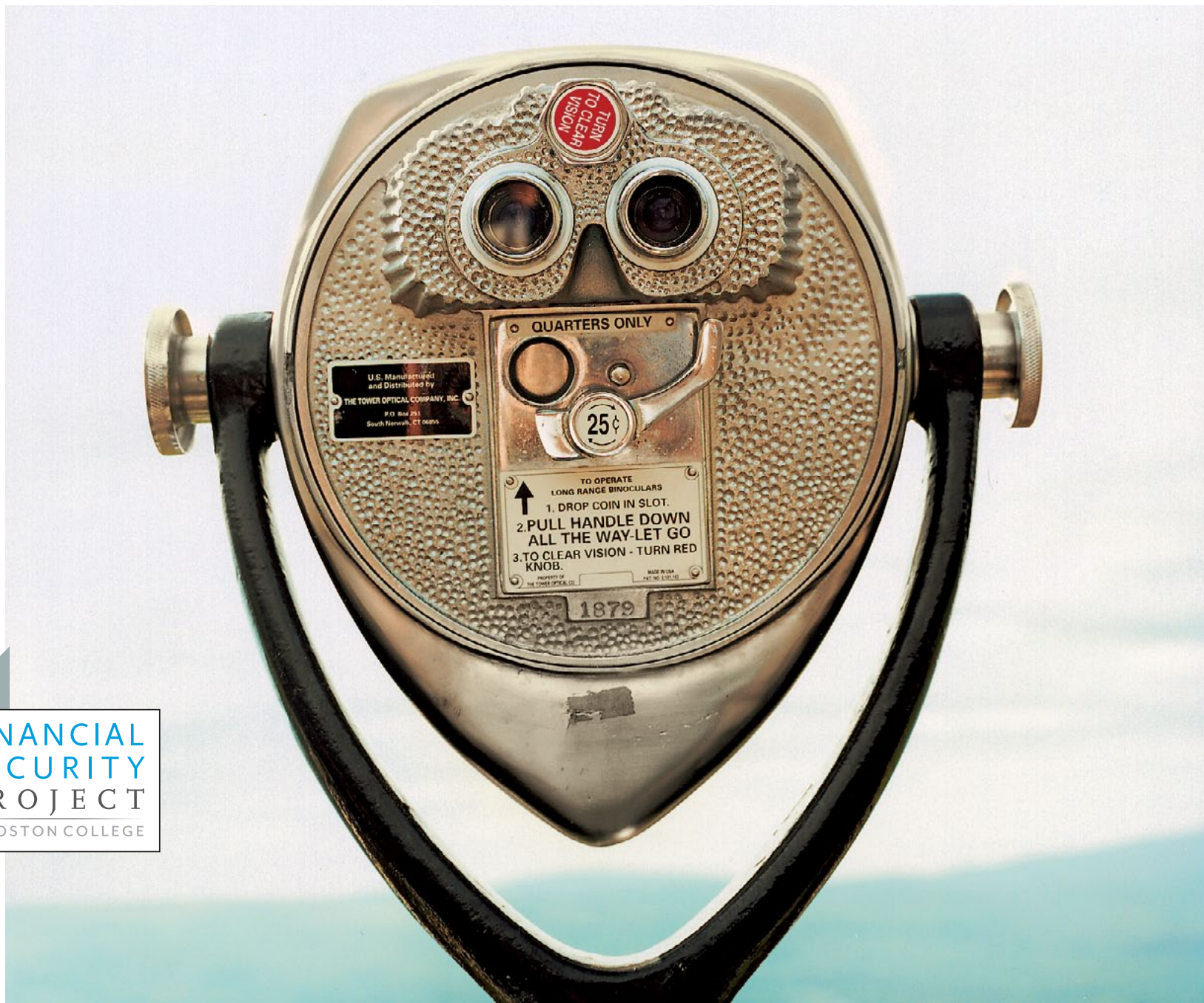


# MANAGING YOUR MONEY *in* RETIREMENT



FINANCIAL  
SECURITY  
PROJECT  
at BOSTON COLLEGE

*After a lifetime of work, it's great to take a trip, help the kids, or get a new TV. But before you get what you want, make sure you have what you need.*

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## How to see your financial needs are met

- 1 Define what you need.** A reasonable place to begin is what you currently need each month to pay the bills. While spending on trips and entertainment declines with age, medical costs could push your expenses higher.
- 2 Add up what you have.** Social Security, pensions, and other income help pay your monthly expenses. Then there's your savings and house. You can draw an income out of these assets, hold them as reserves, or leave them to your kids or charity.
- 3 Decide what to do.** If you can pay the bills and are well-insured, have enough assets, or can accept the consequences of a bad medical or financial shock, you don't have to do anything. If not, the primary options are to change the way you use your savings or house, return to work, or tighten your belt.

Most retirees can put a plan together reasonably quickly. What's important is to start, and follow through.



It's not just an arithmetic problem. You also need to think differently about things flagged by the \* on the following pages.

## Everyday expenses

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To stay in your house, drive the same car, and remain active in your community, you don't need as much income as you did while working.

### YOU PAY LESS TAX.

- You don't pay payroll tax on income from Social Security, savings, or employer pensions.
- You don't pay income tax on all of your Social Security benefits.

### YOU DON'T NEED TO SAVE FOR RETIREMENT.

### THE MORTGAGE IS OFTEN PAID OFF, OR WILL BE SOON.

### YOU'LL PROBABLY SPEND MORE ON MEDICAL CARE.

- But this rarely offsets the overall cut in expenses.

Retirees generally need about 70 percent of pre-retirement income for everyday expenses. A surviving spouse needs about half the couple's pre-retirement income.

### || WORKSHEET ||

How much do you think you need each month? \$

How much for a surviving spouse (if married)? \$


→ Use today's dollars. It makes planning much easier.



*Set a reasonable target*

Low-income households often need more than 70% of what they had while working.

High-income households often need less, as they see a sharper cut in taxes and saving. They also have more “discretionary expenditures” they could cut, if need be.

 It's tempting to ignore your needs down the road. But when tomorrow comes, your needs will be there.

## Medical bills

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Health care costs are projected to rise over time about 3% a year above inflation.

MEDICAL CARE IS something you can't do without. Medicare pays much of the cost. But you are responsible for premiums, deductibles, copays, and items that Medicare doesn't cover. Medigap policies, offered by private insurers, cover many but not all of these costs. The big exception is long-term care.

Medical expenses are rising. In twenty years, health-care expenses in today's dollars, not including long-term care, could triple. Could you offset this rise in health care costs with cuts in other expenses? If not, how much more income would you or a surviving spouse need?

|| **WORKSHEET** ||

<i>Additional monthly income for medical costs in your 80s</i>	\$
<i>Long-term care insurance, if you choose to buy it</i>	\$




## *The long-term care dilemma*

One in four Americans age 65 is expected to spend at least one year in a nursing home, at a cost of about **\$75,000** a year — and this cost is NOT covered by Medicare.

**Medicaid**, the government program for the poor, DOES cover long-term care — for those with very low income and assets.

You can buy private **long-term care insurance**. The cost is about \$200 a month for a policy bought at age 65 that pays up to \$60,000 a year.

 It takes time and effort to plan. But if you put it off, you might not be able to afford the care you want, or be forced to deplete the savings you or your survivor will need down the road.

## Social Security

While Social Security's Trust Fund will be depleted by 2040, continuing tax revenues could still pay nearly 80¢ on the dollar.

FOR PAYING EVERYDAY expenses, Social Security benefits are especially valuable. It's rarely enough to support your current lifestyle. But the benefits are an annuity that keeps up with inflation, and the checks keep coming as long as you live.

Other sources of income tend to dry up over time. So as you age, Social Security benefits generally become increasingly important.



### WORKSHEET

How much you get from Social Security: \$ \_\_\_\_\_

How much your surviving spouse would get (it's the higher benefit): \$ \_\_\_\_\_





*Social Security benefits alone are often inadequate for widow(er)s*

Women often outlive their husbands by many years. They get the greater of their own or their spouse's monthly benefit. But it's:

- Much less than what they got as a couple.
- Much less than continuing expenses.

So be sure your plan protects your survivor.



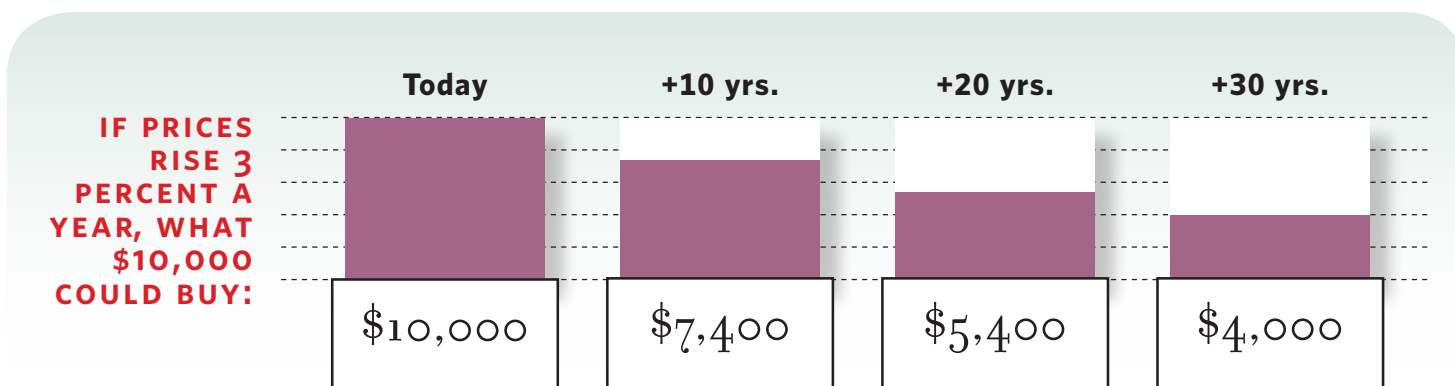
We'd rather not think of painful events. But to protect your loved ones, it's sometimes important you do.

## Employer pensions and other income

If prices rise 3% a year, in 20 years \$10,000 will buy barely half what it can today.

MANY RETIREES RELY on dividends, interest, alimony, rents, or traditional employer pensions, which provide a monthly income as long as you live. Note, however, that employer pensions are often not inflation-proof and surviving spouses usually get nothing, or only 1/2 their spouse's pension.

Use the following page to take stock, for now, of what you need, what you have, and your monthly shortfall or surplus.



Take stock, for now, of your monthly income and expenses

<b>WORKSHEET</b>	YOU ↓	YOUR SURVIVOR ↓
<b>WHAT YOU NEED:</b>		
<i>Everyday expenses</i>	\$	\$
<i>More for medical insurance</i>		\$
<i>Long-term care insurance?</i>	\$	\$
<b>TOTAL (A):</b>	\$	\$
<b>WHAT YOU HAVE:</b>		
<i>Social Security</i>	\$	\$
<i>Employer pensions</i>	\$	\$
<i>Other monthly income</i>	\$	\$
<b>TOTAL (B):</b>	\$	\$
<b>MONTHLY INCOME SHORTFALL/SURPLUS</b>		
<b>TOTAL (A) MINUS TOTAL (B):</b>	\$	\$

## 401(k)/IRA savings

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Now it's time to make decisions, first about your savings.

USING SAVINGS TO finance retirement is hardly straightforward, because:

### **SAVINGS HAVE TWO COMPETING USES:**

- You can draw an income out of your savings to maintain your lifestyle.
- You can hold your savings as reserves, or buy insurance, to protect your lifestyle.

[NOTE: Another use is to leave a bequest to your children or charities.]

### **HOW SAVINGS ARE USED CAN INCREASE RISK.**

- Using stocks to boost your investment income comes with the risk that a downturn will reduce their value.
- The more income you draw out of your savings, the greater the risk you will outlive your savings.

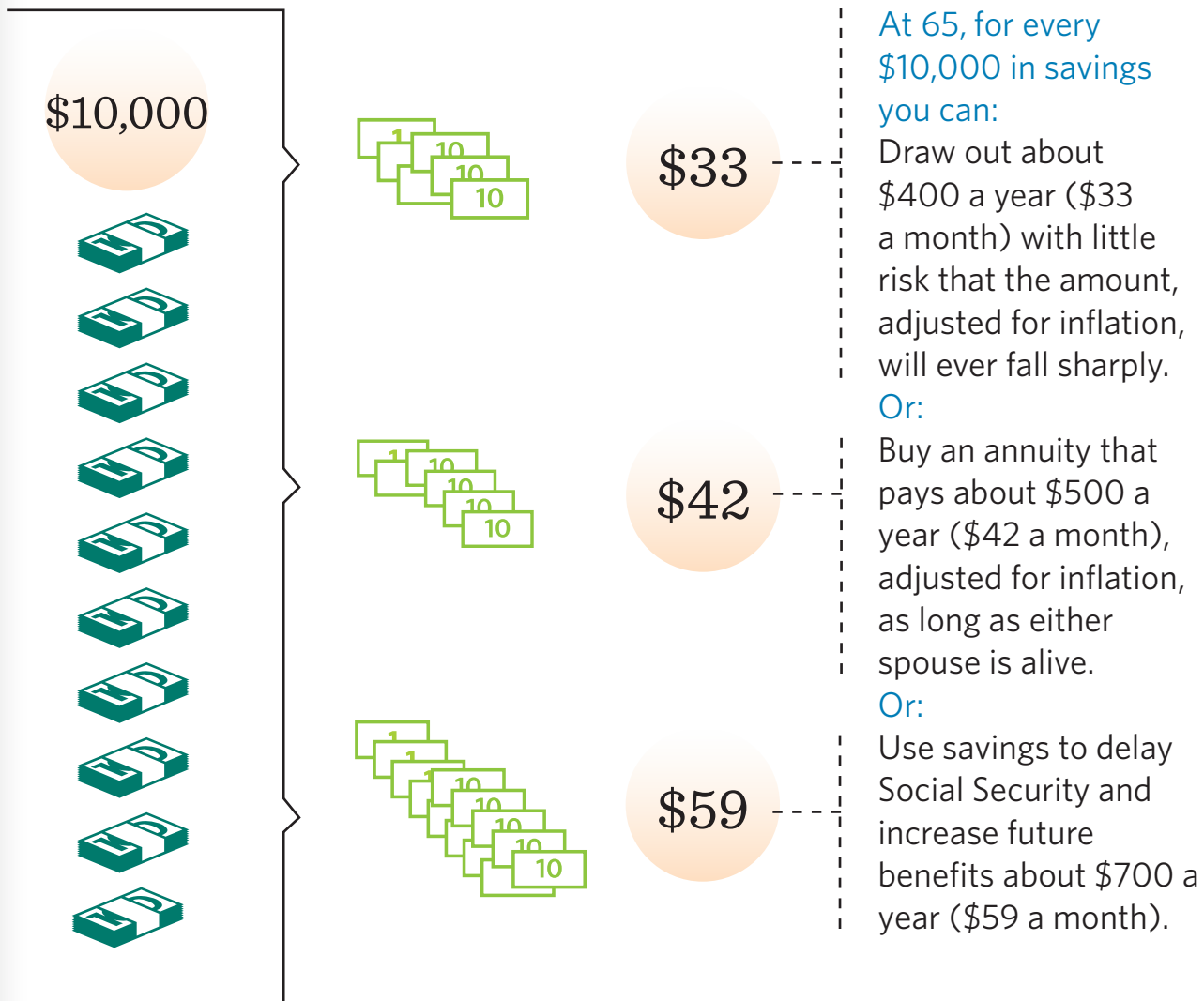
### **THESE ISSUES ARE INTERCONNECTED:**


- The less your *risk* – from medical costs, financial shocks, or outliving your savings – the less *reserves* you need and the more income you can draw.

### **AND CONNECTED TO YOUR EXPENSES:**

- The more “fixed” your expenses, the less risk you can bear and/or more reserves you need.

### 3 ways to draw a monthly income from savings earmarked to produce income



 Preserving principal might seem the only safe bet. But there *are* reasonably safe ways you can draw down your savings.

## Home equity

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Many retirees have more home equity than they have in 401(k)/IRA savings.

IF NEEDED, you can tap home equity – the value of your house less any remaining mortgage – to supplement inadequate incomes or pay big medical or nursing home bills.

Widow(er)s often downsize, as they typically need more income and don't need or can't afford a larger house.

Many needing extended nursing home care sell their house, which they no longer need, to pay the bill.




## *The most powerful ways to tap home equity*

- **Downsizing.** Moving to a less expensive house 1) adds to your retirement savings; and 2) reduces housing costs, often your largest expense.

Moving is also easier, physically and socially, now than when you're older.

- **A REVERSE MORTGAGE.**

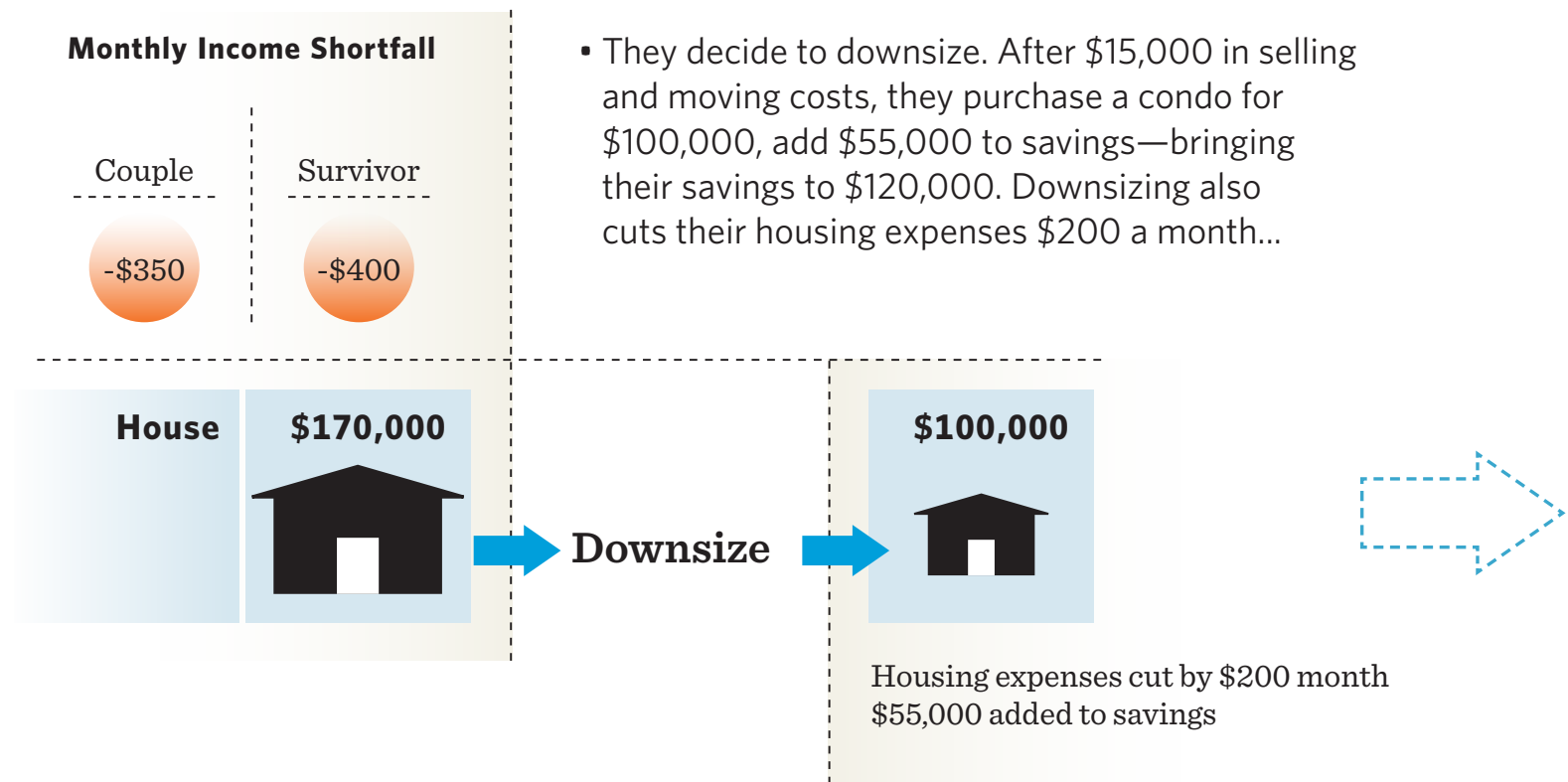
A reverse mortgage is a new, unfamiliar, and somewhat complicated arrangement. But it 1) allows you to stay in your house for the rest of your life; and 2) provides tax-free income.

 Leaving your home and the memories it holds is often an emotional break. But most retirees who do move adapt and flourish.

## Lay out a plan that meets your needs

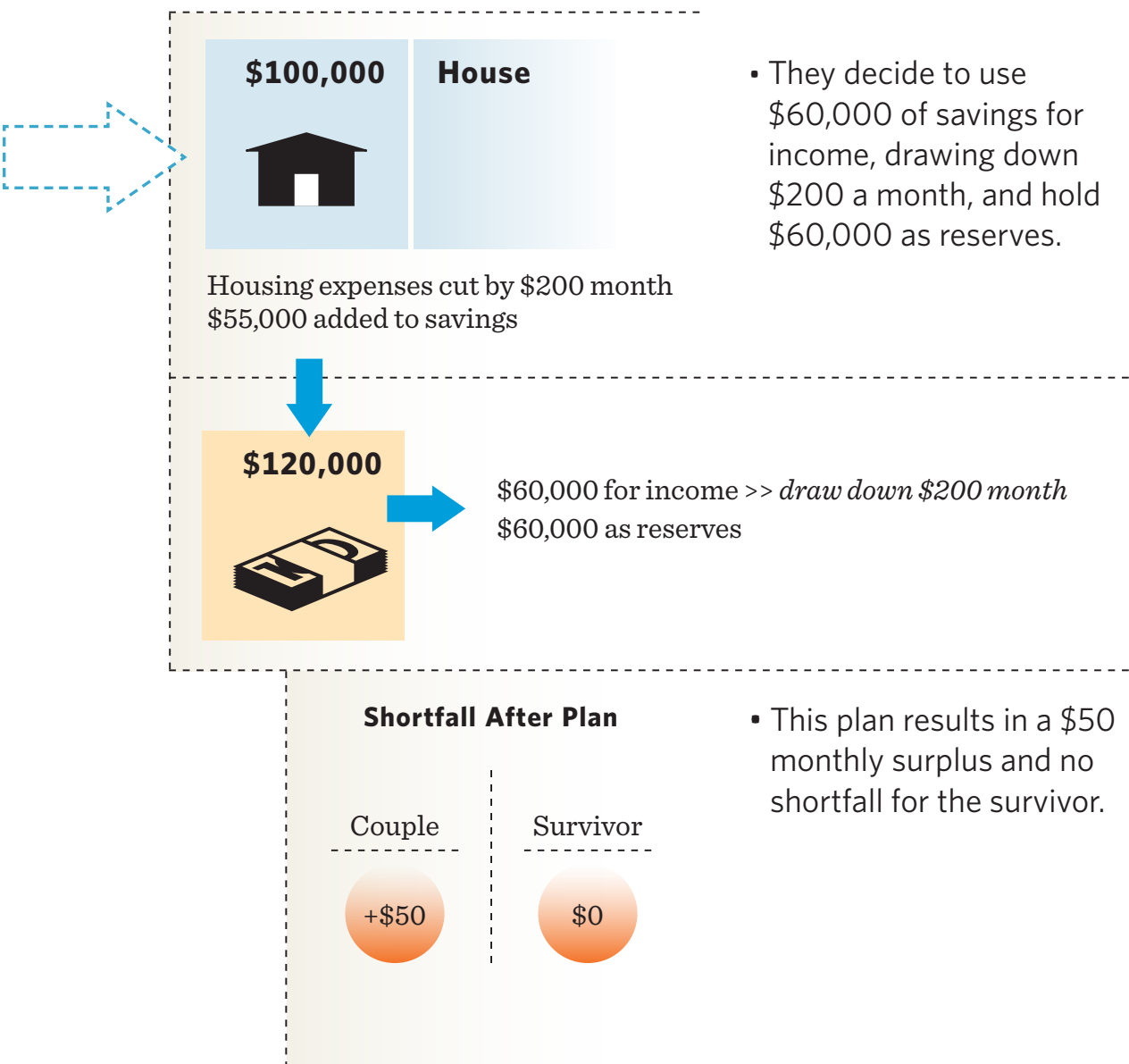
This example illustrates the process.

→ A couple has a \$350 monthly income shortfall, projects a \$400 shortfall for the survivor, has a house worth \$170,000, and \$65,000 in savings.





## © WHAT TO DO | LAY OUT A PLAN THAT MEETS YOUR NEEDS



*The plan maintains the couple's standard of living – now and in the future. But they would be hard-pressed to pay for long-term care.*

## If you **don't** have enough

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Things to consider if you can't pay the bills or the risks are too great:

- **Tighten your belt.** If you adopt a less costly standard of living today, you reduce the risk of a much sharper decline tomorrow, when you're older, poorer, and less able to adjust.

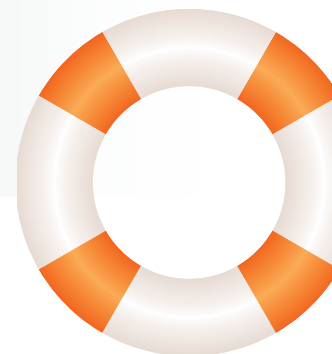
- **Return to work to conserve your resources.** Jobs can be hard to find and have less status than jobs you held in the past. But each year you don't touch your savings 1) your savings grow and 2) your savings won't have to stretch as far. So your income from savings should be about 5-8 percent more.

- **Change the way you use your savings or house.** Not many retirees today downsize early in retirement, draw down their savings, or buy annuities. But each has advantages that might suit your needs.

### HAVE A PLAN SHOULD THINGS GO BADLY

If you need long-term care and can't afford a nursing home, will you rely on your family or exhaust your assets and go on Medicaid?

If your income from savings falls sharply, how might you reduce your expenses in the least painful way?



## If you **do** have enough

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IF YOU CAN PAY the monthly bills for the rest of your life and are well-insured or can bear the risks you face, you have options. You can:

- Spend more freely and buy more things that you like.
- Give more to charity or your children.
- Invest your surplus savings in stocks and other assets that are risky, but have high expected returns. If things go well, you can spend more, give more, or leave more to your children. If not, you have the peace of mind that your needs will still be met.





*The quicker you  
act, the more  
secure your  
retirement will be.*

## © WHAT TO DO

### Do it now

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WHAT YOU DO MAKES A DIFFERENCE.

#### SO MAKE A PLAN:

- Think and act long term, which we don't naturally do.
- Plan for your survivor, which means thinking about death (and making a will!)
- Assess your risks realistically, and have a plan if things go badly.

#### IF IT'S IN YOUR PLAN:

- Move to a less expensive home.
- Adopt a disciplined drawdown strategy or buy an annuity – something most people resist.
- Be prepared to accept less status on the job.
- Or give up things that you think you “can't do without.”



<http://fsp.bc.edu>

For an expanding set of  
useful tools and information

<http://fsp.bc.edu/curious/>

For an entertaining review of “curious  
behaviors” that make *Managing Your Money  
in Retirement* so tough



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